

STRICTLY CONFIDENTIAL



Dubai: The War of the Villas

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Executive Summary

- A breakdown of the pricing structure of the horizontal market (mansion, villas and townhouses) in 2005 reveals that 85% of units in freehold areas were below the 2 million mark. This dynamic has inverted a decade later in 2016, as these units only accounts for 12% of freehold supply. As Dubai moves foreword with a new set of launches, catering to the salaried worker, a larger portion of up-coming supply (32%) is below the 2 million purchase price.
- The existing supply of units is skewed towards the villa segment, accounting for 63% of the total number of units, whereas townhouses account for 32% and mansions 5%. These developments originally clustered around the Sheikh Zayed corridor, which accounted for 43% of the entire freehold stock. However, the new wave of launches has shifted westwards, centering around Al-Qudra and Al-Khail road. As developer cater to the pent up demand from the affordable segment 50% of the new supply is from townhouses, which historically made up only 32% of all freehold horizontal living units. For the mansion segment, 65% of the new units will be on Al-Khail road, in the form of Dubai Hills and Muhammad bin Rashid City
- The mean-reversion analysis is a useful indicator in valuing properties in order to determine whether they are over or under valued. The greater the divergence between the spread in either direction signals that a convergence is on the horizon, consequently over valuing or undervaluing a property. Within the villa segment it reveals that communities such as Jumeirah Islands, Springs, Arabian Ranches, and Victory Heights have entered the buy territory. Whereas Jumeirah Park and Palm Jumeirah remain within the 'sell' zone. Whilst there is no hard rule for mean reversion, the data indicates that historically prices have tended to mean revert in all communities
- Villas, townhouses and mansions have historically accounted for 14% of the entire freehold housing stock. However, with the recent flood of supply within this segment, the topography will shift making horizontal living units account for 17% of the housing stock. When analyzing returns factoring in the rental income since the 2014 correction, the apartment segment has outperformed.



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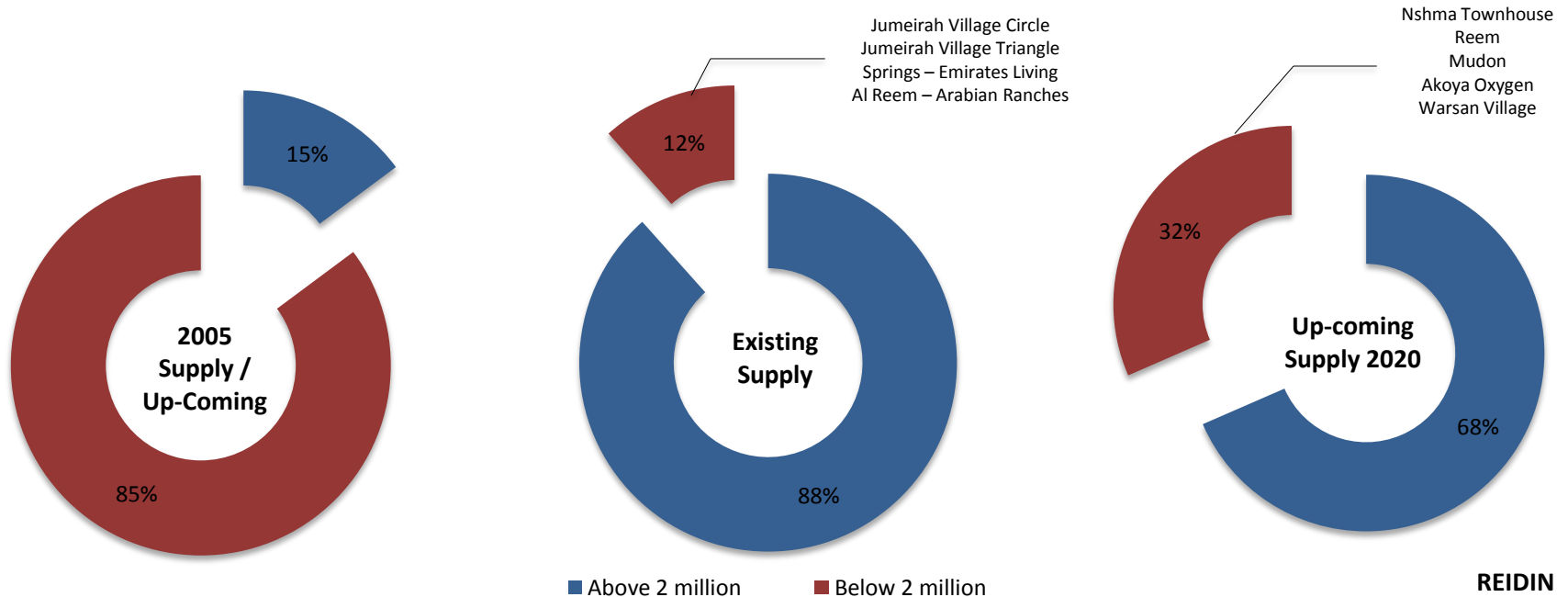
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Apartments to Villas Ratio



“If you do not know how to ask the right question, you discover nothing” – W. Edward Deming

Price Structure of the Horizontal Living: Above 2 Million / Below 2 Million



A break-down of the housing supply by purchase points reveals that 88% of the existing units is above the 2 million mark. This dynamic has inverted from a decade ago, where bulk of the supply was below the purchase price point of 2 million, making it accessible to salaried workers.

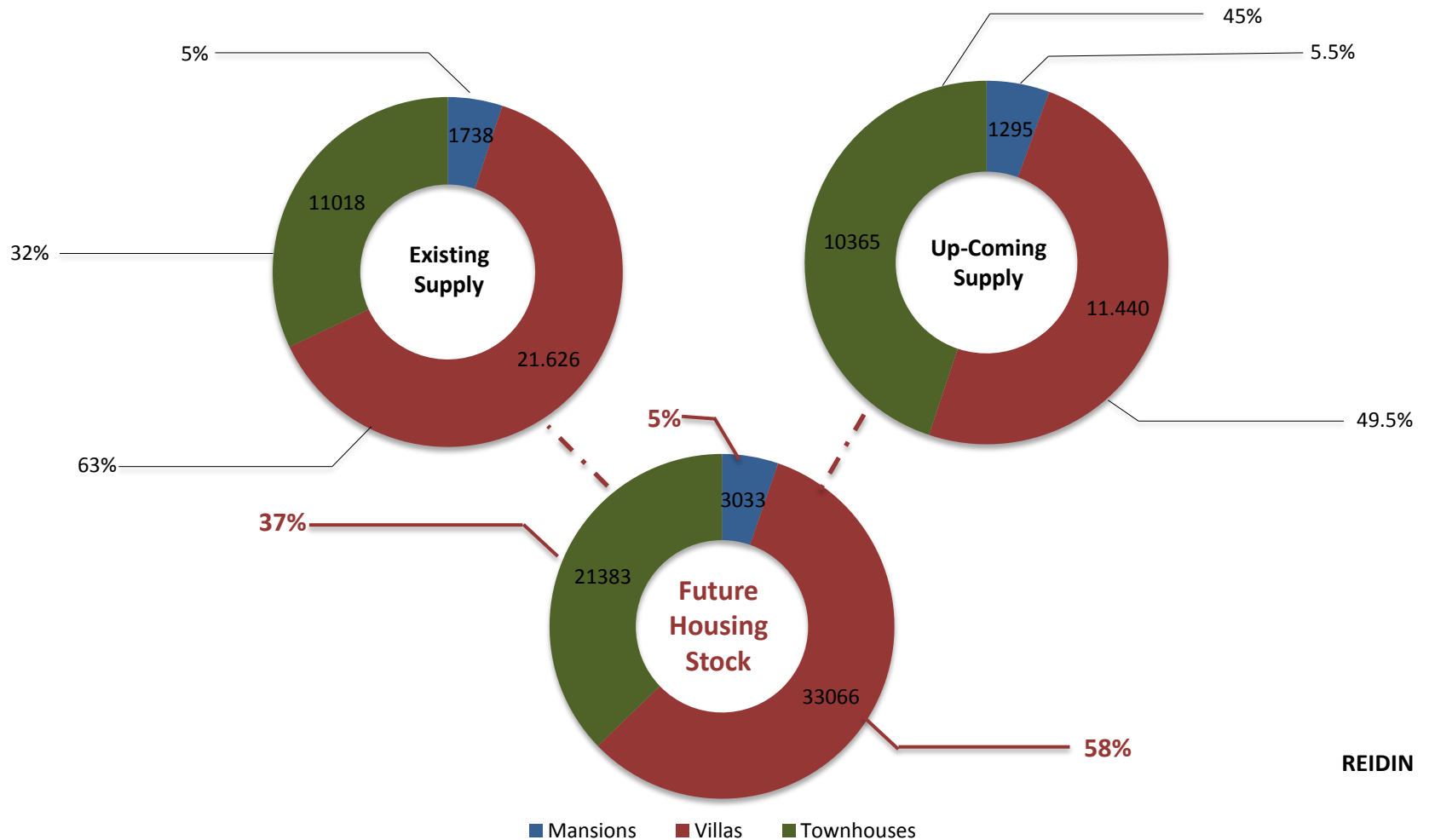
The pendulum appears to have shifted somewhat with recent launches by developers catering to the below and 2 million mark on a greater scale (moving up from 12% to 32%); this is a trend that we opine will continue as developers increasingly cater to the mid market segment by developing in new upcoming suburban areas.

Supply Dynamics of the Horizontal Living



“Not everything that can be counted counts, and not everything that counts can be counted” - Albert Einstein

Supply Dynamics of the Horizontal Living of Dubai: Segmentation Analysis

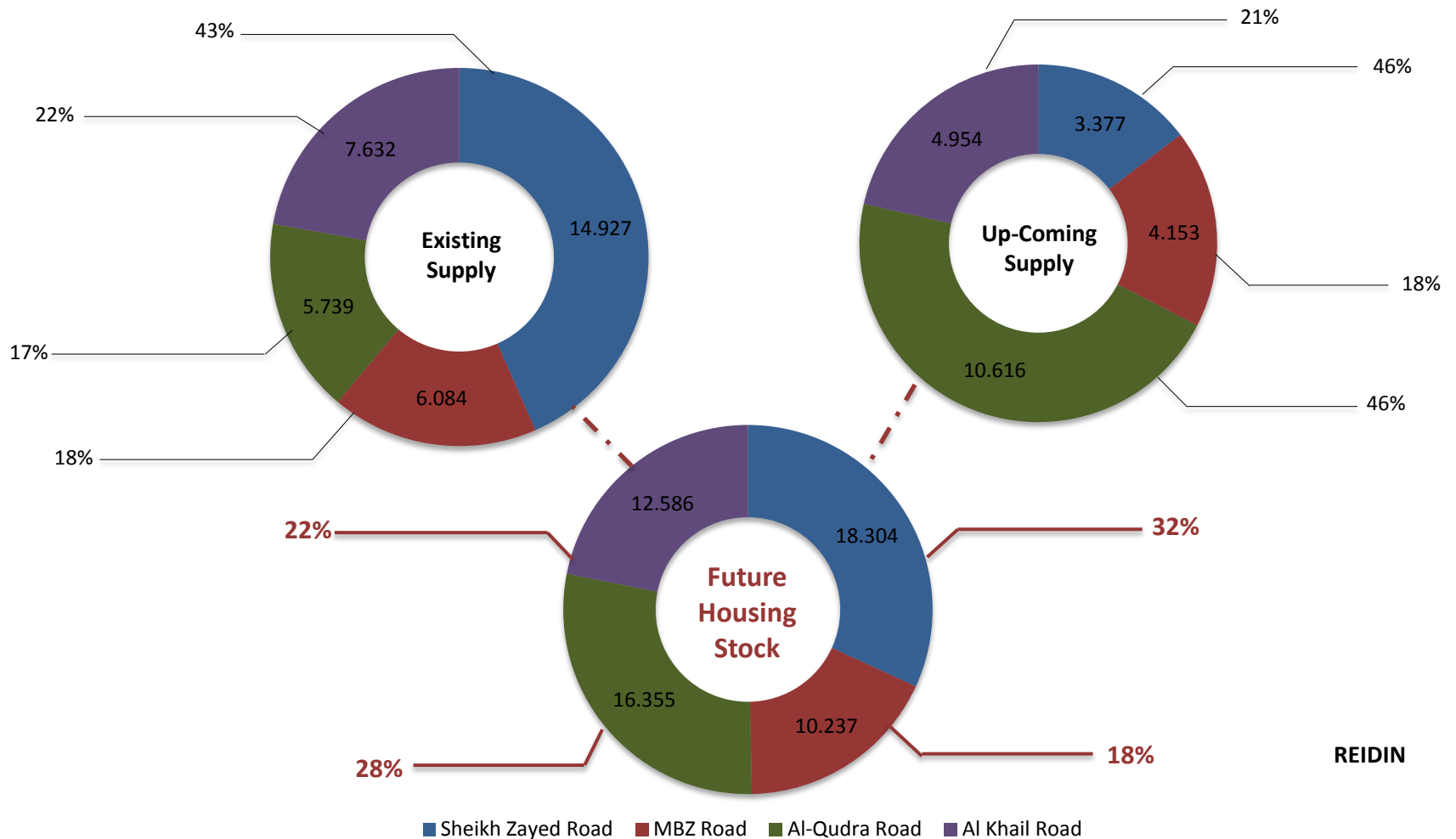


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The above diagram depicts the housing supply dynamics of the horizontal living landscape. Currently the existing supply is skewed towards the villa segment accounting for 63% of the housing stock. However, in the second wave of development from 2012, developers began to launch affordable options in order to cater to the pent up demand. This led to a series of new townhouses launches, which accounted for 50% of the new supply.

*In monitored areas

Supply Dynamics of the Horizontal Living of Dubai: Density Analysis



A geographic analysis reveals that the existing options in the freehold market for horizontal living is focused around the Sheikh Zayed corridor. However, as developers began to launch a series of new developments in the second asset boom, it shifted the supply westwards. The major beneficiary of the new construction boom within the horizontal living space will be Al-Qudra road, accounting for 46% of new supply.

*In monitored areas

Segmentation Analysis of Location of Units



The above diagram gives a granular break-down of units within the segments of the horizontal living space and their location. We can witness the major shifts have been in the mansion segment, with the majority of new stock coming on Al-Khail road in the form of Dubai Hills and MBR City. In the townhouse segment, Al Qudra road will act as the major repository for new supply.

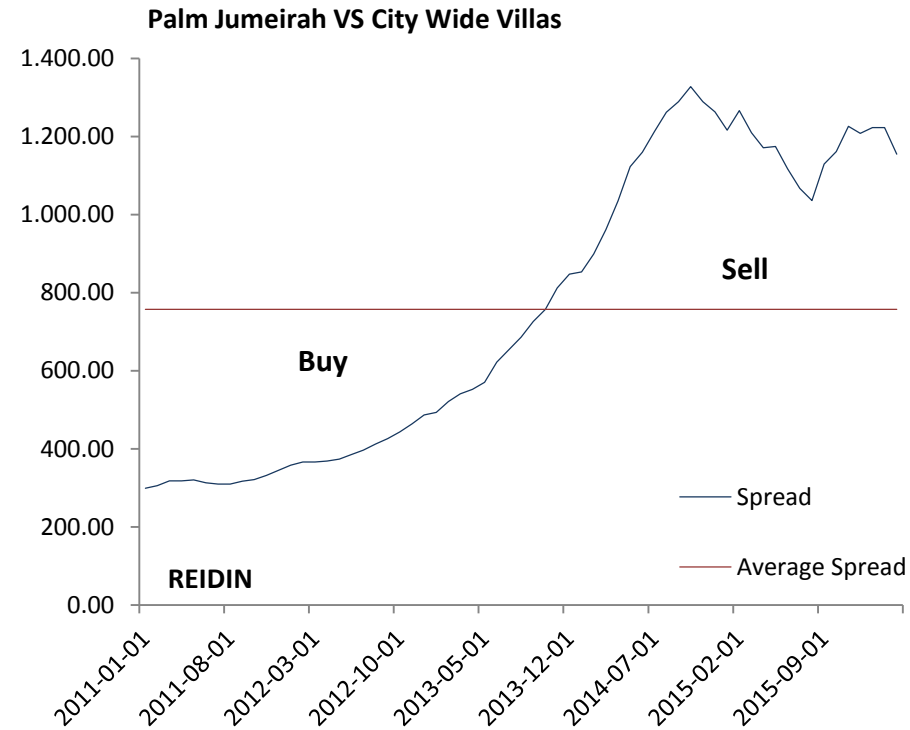
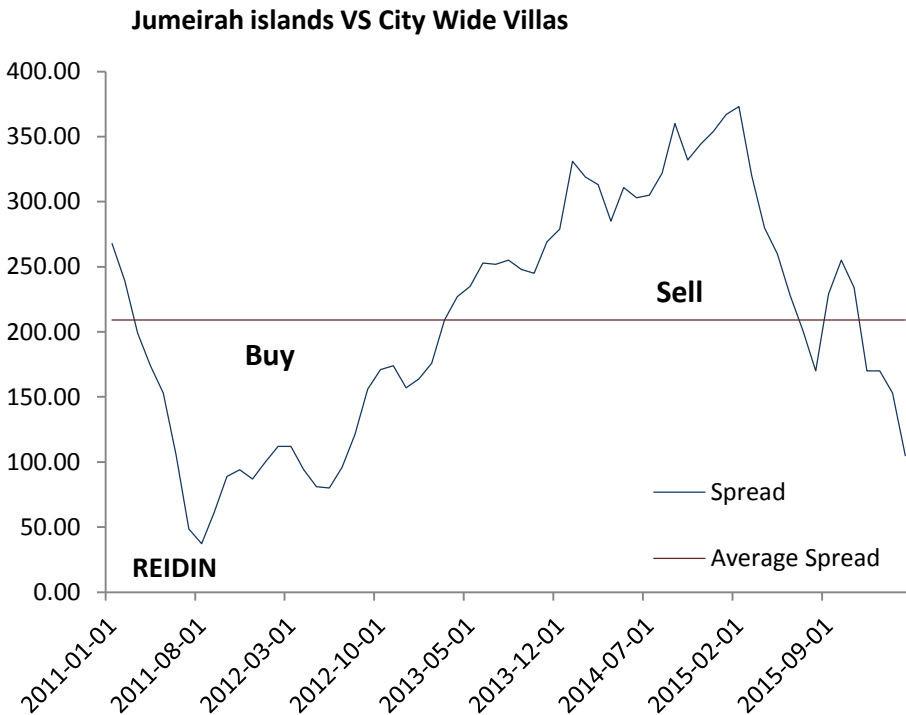
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Price Performance of Villas



“Data! Data! Data! I can’t make bricks without clay!” –
Sir Arthur Conan Doyle

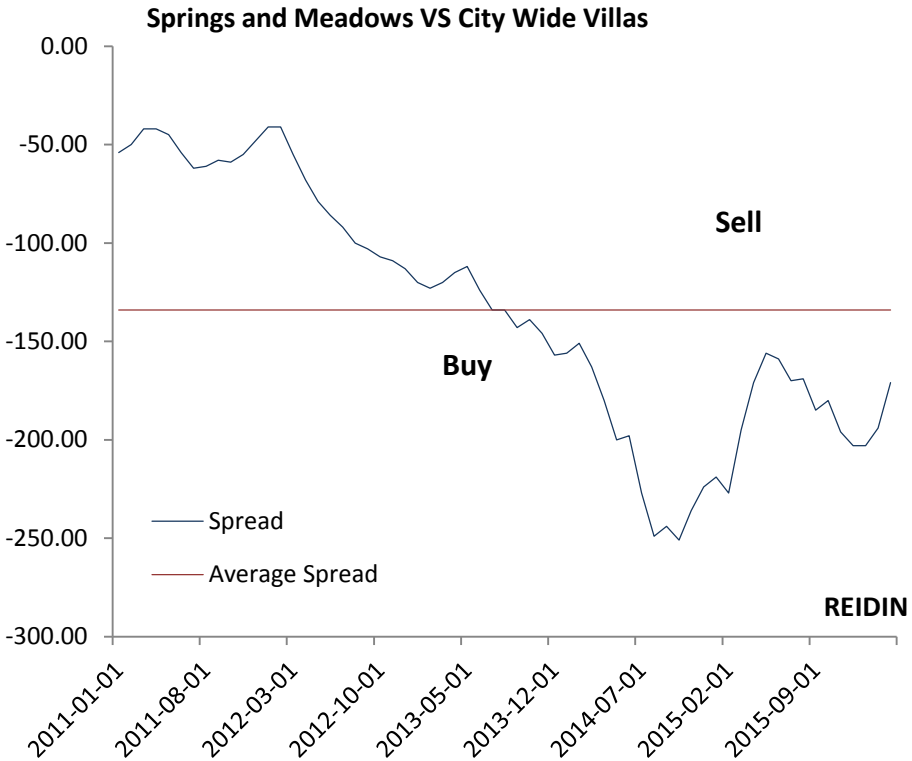
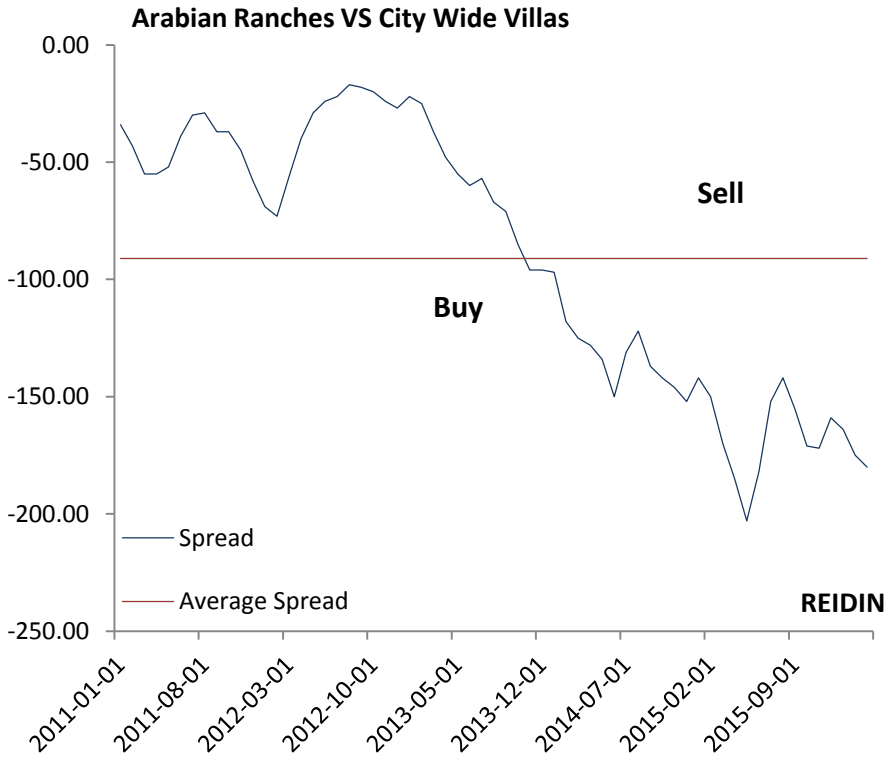
Where is the Spread Trade (I)



A mean-reversion analysis between villa communities and the historical average of city-wide prices act as an indicator whether to buy or sell. The greater the divergence between the spread in either direction signals that a convergence is on the horizon, consequently over valuing or undervaluing a property.

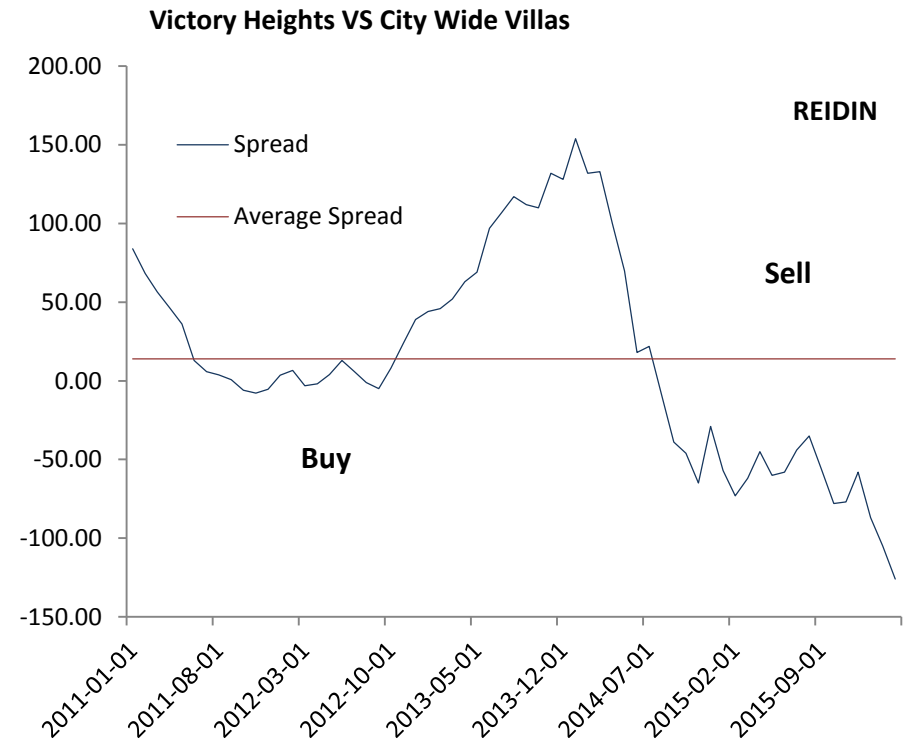
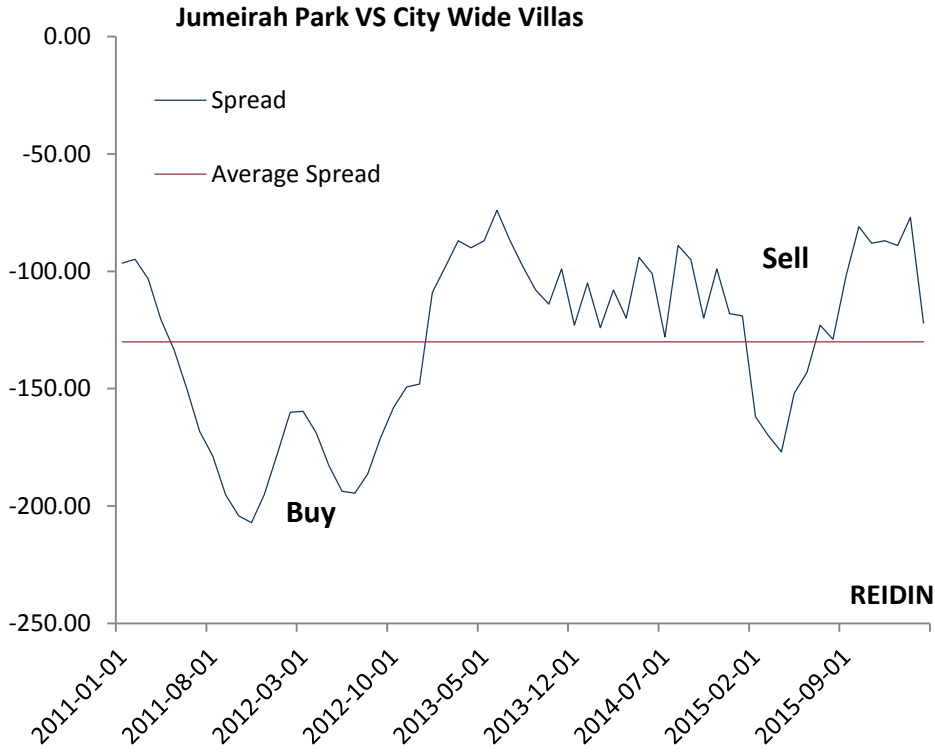
Whilst there is no hard rule for mean reversion, the above charts indicate that historically prices have tended to mean revert in all communities, implying that this serves as a useful signal for investors in determining buy/sell decisions.

Where is the Spread Trade (II)



In Arabian Ranches and Springs/Meadows, we witness that Arabian Ranches continues to fall deeper in the 'buy zone' whereas Springs and Meadows creeps towards the neutral territory. For the former therefore, it is likely that prices will revert upwards to the mean, as has already been witnessed in the Springs/Meadows Community.

Where is the Spread Trade (III)



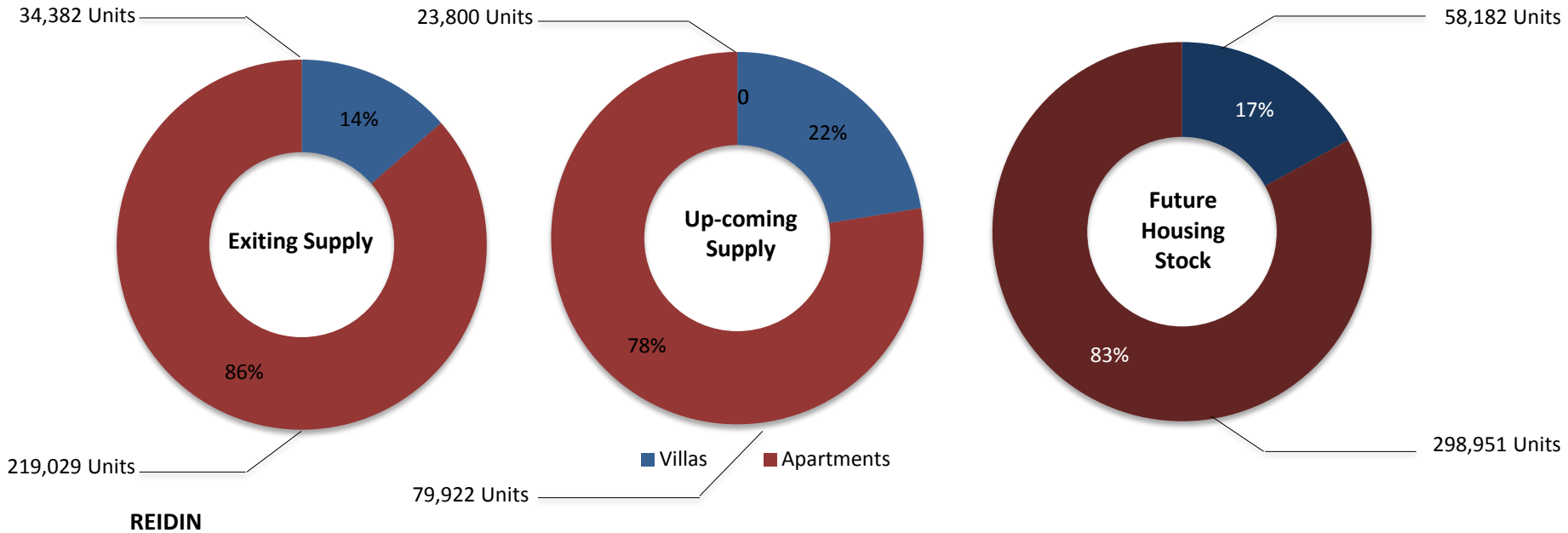
In Jumeirah Park, prices seem to be trending towards the buy zone, whereas Victory Heights appears ripe for an upward revision of prices towards the mean city wide levels.

Apartments to Villas Ratio



“If you do not know how to ask the right question, you discover nothing” – W. Edward Deming

Ratio of Apartments to Villas

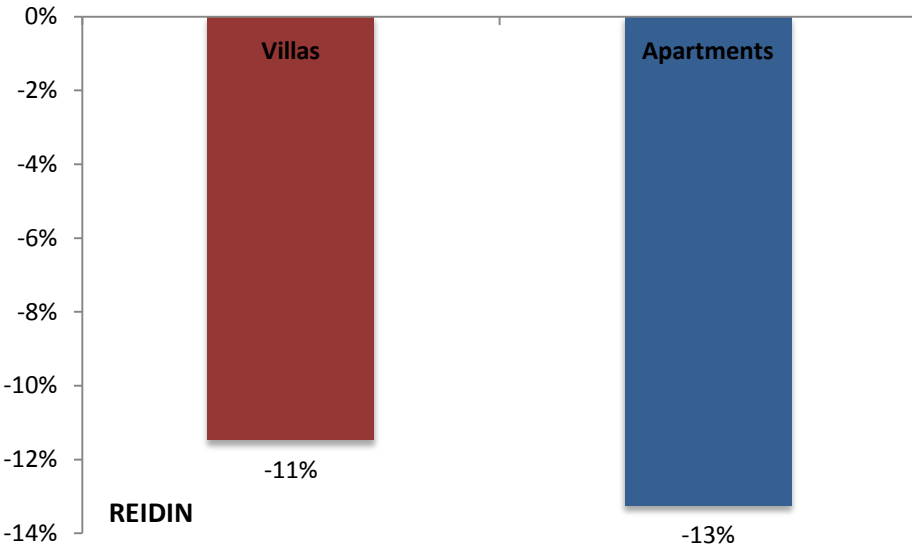


Historically, the vertical living has accounted for 86% of the total freehold supply. However, an analysis of the up-coming supply reveals that ratio is skewing higher towards the horizontal space, accounting for 22% of new developments. With higher levels of expected supply in the horizontal space, it is likely that overall capital gains in this space are expected to moderate.

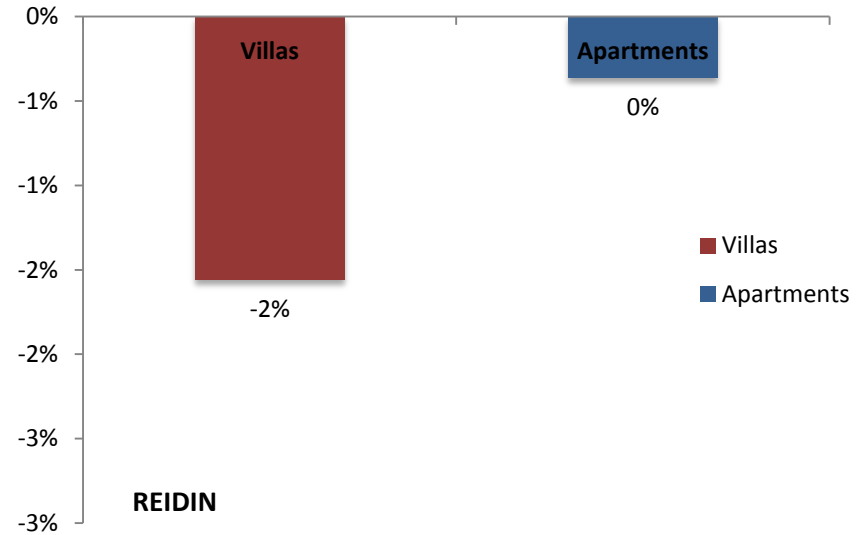
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Prices Action in Apartments and Villas

Villas vs. Apartments – Price Change (2014 Peak to Now)



Villas vs. Apartments – Total Return Analysis (2014 Peak to Now)



A price action analysis between apartments and villas reveals that the latter has under-performed by 2% since the correction in mid 2014. However, an important variable that is not factored in the equation is the rental income, as highlighted in our previous report “All the Returns We Cannot See”. When a total return analysis is conducted we witness that apartments remain flat since the fall, while villas have dipped by 2%.

Conclusions

A break-down of the housing supply by purchase points reveals that 88% of the existing units is above the 2 million mark. This dynamic has inverted from a decade ago,

A mean-reversion analysis between villa communities and the historical average of city-wide prices act as an indicator whether to buy or sell.

Pricing Structure of the Horizontal Living

The 2 million aed price point is one that allows home-ownership amongst the upper strata of society.

In 2005, 88% of horizontal living units were within this price point. However, a decade later this metric has inverted, making the majority of units unattainable by salaried workers.

However, as Dubai moves towards a more affordable spectrum of supply, this ratio of units launched below 2 million aed has increase (12% to 32%)

Spread Trades

Mean-reversion has been used by technical analysts as an indicator to value asset pricing. By tracing how much prices have deviated from the mean signals a buy or sell signal depending on the direction.

A similar analysis was conducted in the villa communities. It reveals that communities such as Jumeirah Islands, Springs, Arabian Ranches, and Victory Heights have entered the buy territory. Whereas Jumeirah Park and Palm Jumeirah remain within the 'sell' zone. Whilst there is no hard rule for mean reversion, the data indicates that historically prices have tended to mean revert in all communities

Supply Analysis

A break-down of the supply of mansion, villas, and townhouses reveals that the majority of supply is focused around the villa segment (63%).

Furthermore, the majority of developments have been clustered around the Sheikh Zayed road corridor.

However, as developers began to launch the second wave of launches in 2013, they shifted westwards, towards Al-Khail and Al-Qudra road.

Moreover, the shift of supply has been tilted towards townhouses space, allowing for higher accessibility from the population

Apartments and Villa Ratios

Historically apartments have made up 84% of the supply, dominating the housing market. However, due to the lack of supply superior villas had superior price growths in the first bull run from 2002 to 2007.

This caused developers to concentrate on launching villas during the second rally in 2012, increasing the ratio of upcoming supply.

This tilt in supply dynamics has lead to apartments having superior growth rates.



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The Ruler of Dubai and Prime Minister of UAE



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